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Honorable Art Agnos, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

This letter provides interim information on the Department of Developmental Services' (department) residential care rates. We gathered this information during our audit of the department's practices for setting residential care rates. During fiscal year 1984-85, the department will be conducting a comprehensive study of residential care rates, and it will present the results of this study to the Legislature by March 1, 1985. Therefore, to avoid a duplication of effort, we recommend that no further audit work be completed until the department finishes its study. At that time, we can review and comment on the department's study.

The department develops rates for reimbursing community care facilities for the cost of providing residential care services to the developmentally disabled. In this letter, we provide information on proposed and actual changes in residential care rates since fiscal year 1979-80. We also provide information on rate studies conducted both by the department and by a private entity, the California Association of Residences for Retarded. These studies concluded that the residential care rates were lower than the cost of providing residential care services. Additionally, based upon our comparison of increases in residential care rates since fiscal year 1979-80 with cost-of-living indices during this same period, we conclude that residential care rates have not kept pace with cost-of-living changes. However, the extent to which the residential care rates should be adjusted cannot be determined until a comprehensive rate study is conducted. We have discussed the contents of this letter with officials from the department.

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### Background

The department is responsible for contracting with nonprofit community agencies to operate regional centers. Through the regional centers, a variety of services, including residential care, are delivered to the developmentally disabled. Section 4681 of the Welfare and Institutions Code requires the department to develop rates for residential care services and to submit these rates to the Legislature for consideration. The purpose of Section 4681 is to assure that rates for residential care are adequate to provide the developmentally disabled with quality care.

The residential care rate is based on the monthly cost of providing services to one developmentally disabled client. Current residential care rates vary according to the size of the facility and the level of supervision provided to clients. The department is required to propose adjustments to these rates annually and to present them to the Legislature by March 1. In addition, every three years, the department must redetermine "basic living costs," which represent the amount needed to cover the basic living needs of a person with developmental disabilities.

### Adjustments to Residential Care Rates

The department's most recent study of residential care rates to redetermine "basic living costs" was in fiscal year 1981-82. The objectives of that study were twofold: to develop residential care rates that would be adequate to cover estimated median costs for basic living needs, direct supervision, and certain administrative costs, and to identify all cost components that should be included in the residential care rates. As a part of the study, department staff reviewed cost data from a sample of 34 residential care facilities that varied in size and in geographical location. Because time constraints made the sample size small, the department used additional data collected from prior audits of residential care facilities. Department staff analyzed various cost and wage data, including cost-of-living data from the United States Bureau of Labor Statistics and salary and benefit schedules from the State Personnel Board.

Based on its study, the department concluded that residential care rates did not adequately cover the median costs of community care facilities. The department recommended an 18.5 percent rate increase for the average client for fiscal year 1981-82. The department also recommended that residential care rates vary by facility type (that is, either group homes or family homes) rather than facility size. Further, the department recommended that rates include additional cost components such as costs for staff working at night and cost differences due to geographical

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locations. However, only a 6 percent cost-of-living increase for residential care rates was granted. In addition, the residential care rates remained based on facility size and not facility type, and the additional cost components were not incorporated.

Since fiscal year 1981-82, residential care rates have not been increased. Although the department proposed an 18.8 percent overall rate increase for fiscal year 1982-83 and a 3 percent increase for fiscal year 1983-84, these recommended rate increases were not implemented. (Appendix A provides a summary of actual residential care rates and the department's proposed residential care rates for fiscal years 1979-80 through 1983-84.)

In 1983, the California Association of Residences for Retarded (CARR) studied residential care rates. Unlike the department's study, which was intended to establish residential care rates, the CARR's study was intended only to provide a general assessment of the adequacy of current residential care rates. The CARR sent questionnaires asking for cost data to 100 community care facilities that belonged to two residential provider associations; 40 of the facilities responded to the questionnaire. Although the CARR's study was not as comprehensive as the department's study, it reached a similar conclusion: residential care rates do not reflect the actual cost of providing residential care services. The CARR noted, however, that it did not verify the accuracy of the data submitted on the questionnaire.

We compared increases in residential care rates with increases in the cost-of-living and found that residential care rates have not kept pace with cost-of-living changes. To evaluate actual increases in residential care rates, we compared percentage increases in residential care rates with the two most applicable cost-of-living indices: the California Consumer Price Index (California CPI) and the California Necessities Index (CNI).<sup>\*</sup> Table 1 on the next page presents the results of this comparison.

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<sup>\*</sup>The California Consumer Price Index is a measure of the average change in prices over time in a fixed "market basket" of goods and services in California. The California CPI is based on items such as food, clothing, shelter, fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living.

The California Necessities Index represents the weighted average rate of cost increases of five components: food, clothing, household fuel and utilities, rent, and transportation for three areas in California.

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**TABLE 1**  
**COMPARISON BETWEEN RESIDENTIAL CARE**  
**RATE INCREASES AND COST-OF-LIVING INCREASES**  
**FISCAL YEARS 1980-81 THROUGH 1983-84**

<u>Fiscal Year</u>	<u>Percentage Increase Over Prior Year</u>		
	<u>Actual Rate</u>	<u>California CPI</u>	<u>CNI**</u>
1980-81	9%	11.6%	8.2%
1981-82	6%	10.9%	5.7%
1982-83	0%	2.1%	5.5%*
1983-84	0%	4.7%*	5.7%*

\*These figures are estimates.

\*\*The CNI percentages represent December over December increases.


As Table 1 shows, the residential care rates have not kept pace with the California CPI and the CNI over the past four years. Between fiscal year 1979-80 and fiscal year 1983-84, the residential care rates increased by approximately 16 percent, while the California CPI increased by 32 percent and the CNI increased by 28 percent. (The summation of the individual percentages shown in Table 1 do not total these figures due to compounding.)

The Deputy Director of the Administration Division of the Department of Developmental Services acknowledged that residential care rates may not have kept pace with cost-of-living increases. However, she further stated that adjusting these rates solely by the California CPI and the CNI may not be appropriate and that a residential care cost study is needed. The department will conduct a comprehensive study of residential care rates during fiscal year 1984-85. The primary goal of the study will be to develop proposed residential care rates for fiscal year 1985-86 that would be adequate to cover estimated median costs for that year. The department's study is to be completed by March 1, 1985.

If you have any questions or need any additional information, please do not hesitate to contact me.

Sincerely,



 THOMAS W. HAYES  
Auditor General

**DEPARTMENT OF DEVELOPMENTAL SERVICES  
PROPOSED RESIDENTIAL CARE RATES  
AND ACTUAL RESIDENTIAL CARE RATES  
FISCAL YEARS 1979-80 THROUGH 1983-84\***

Level of Supervision	Monthly Rate Per Client By Size of Residential Care Facility							
	1-6 Beds		7-15 Beds		16-49 Beds		50 or More Beds	
	Proposed	Actual	Proposed	Actual	Proposed	Actual	Proposed	Actual
<u>1979-80</u>								
Minimum	\$471	\$454	\$506	\$471	\$528	\$518	\$519	\$513
Moderate	610	579	645	596	667	644	658	638
Intensive	703	662	738	679	760	727	751	721
<u>1980-81</u>								
Minimum	485	495	504	513	555	565	549	559
Moderate	619	631	638	650	689	702	682	695
Intensive	709	722	727	740	777	792	772	786
<u>1981-82</u>								
Minimum	591	525	591	544	669	599	669	593
Moderate	750	669	750	689	828	744	828	737
Intensive	855	765	855	784	933	840	933	833
<u>1982-83</u>								
Minimum	630	525	630	544	713	599	713	593
Moderate	798	669	798	689	881	744	881	737
Intensive	909	765	909	784	992	840	992	833
<u>1983-84</u>								
Minimum	541	525	560	544	617	599	611	593
Moderate	689	669	710	689	766	744	759	737
Intensive	788	765	808	784	865	840	858	833

\*The residential care rates include the federal Supplemental Security Income payment and the State Supplementary Program payment.